

The Business of Fun



2005 Annual Report

HOOSIER  LOTTERY

Lottery Commissioner Message

The State Lottery Commission of Indiana



Like a puzzle, the success of the Hoosier Lottery relies on several equally important and interlocking pieces that fit together to create a perfect whole. Whether it is the retirement security of teachers and public safety officers, the success of independent Lottery retailers and vendors, cash prizes for our players, or lower taxes for automobile owners, every Hoosier has a stake in the Hoosier Lottery.

The Hoosier Lottery is an entrepreneurial organization with a mission to be a money-making machine driven to supplement select state programs that have become insolvent by tax revenue alone. This year, the Lottery generated \$739 million in revenues and \$189 million in profits, which were returned to the state to supplement the Teacher's Retirement Fund and the Police and Fire Pension Relief Fund, as well to provide excise tax relief on automobile license plates. Since 1989, the Hoosier Lottery has raised \$2.66 billion to support programs as designated by the Indiana General Assembly.

This was a year of transition for the Hoosier Lottery as a new Lottery Commission and Executive Staff have brought fresh perspectives, enthusiasm and years of business experience to the Lottery. We dedicated our efforts to maximizing the bottom line and instituting more principled business practices. We have assumed an innovative course of action to improve efficiency, productivity, and most importantly, profitability; so that the Hoosier Lottery will become an even greater asset to the State of Indiana.

On behalf of the Indiana State Lottery Commission, I am pleased to present the annual report for Fiscal Year 2005.

A handwritten signature in cursive script that reads "Jean Northenor".



Executive Director Message



On behalf of the Hoosier Lottery, I am pleased to present the Fiscal Year (FY) 2005 (June 30, 2005) Annual Report. In this report, you will find the financial statements and information about the infusion of new concepts and improvements being implemented by the new business-driven executive team and Commission.

Hoosier Lottery retailers broke all previous sales records for a combined total of \$739 million in sales of Lottery products in FY 2005. From those sales, the Lottery returned \$189 million to the State of Indiana, making this the 4th most profitable year in the Lottery's 16-year history.

Not only did Lottery retailers increase sales, but Hoosier Lottery players won a record \$455 million last year. This was primarily due to the success of higher price point scratch-off games which have higher payout percentages. The Lottery sold \$489 million worth of instant tickets, surpassing the previous annual record by more than \$48 million.

Despite the tremendous growth of instant ticket sales, the Hoosier Lottery was hindered by lower revenue from draw games. Draw game sales decreased \$44 million from FY 2004, to just under \$250 million. The primary reason for the decrease was the number of multiple Powerball jackpots in excess of \$150 million awarded during FY 2004 that were not present in FY 2005. During FY 2005, the Lottery joined the other members of the Multi-State Lottery Association in approving changes to Powerball that are intended to encourage larger and faster growing jackpots. The actual changes were initiated on August 28, 2005.



By the end of the third quarter FY 2005, most of the Lottery's new executive staff was in place. The main thrust of necessary changes was focused on efforts to maximize the efficiency of operations through reducing operational costs, streamlining the workforce and eliminating functional duplicity among several departments. Immediate and substantial cost savings were realized through implementing improved procurement standards and renegotiating existing service contracts.

The Security Department was immediately identified as requiring additional staff and significant technology upgrades. Security has taken a more active role in day-to-day operations to help improve the monitoring of our games and to increase player confidence in the Lottery. During FY 2006, the Lottery's new state-of-the-art security control system will be completely operational.

While the Hoosier Lottery has made significant progress, more capital improvements and infrastructure updates must be made to ensure that the Lottery remains a highly profitable organization in the coming years. The Lottery is closer to fulfilling its mission to maximize revenues for state programs by providing entertaining lottery products and quality customer service to our retailers and players, all while maintaining the integrity of the Lottery and its games.

As Executive Director of the Hoosier Lottery, I would like to thank our Governor, Mitch Daniels, our new Commissioners and our Lottery employees for sharing their wisdom and experience that has enabled the Lottery to make such monumental advances in record time. I am pleased to present the Hoosier Lottery's Fiscal Year 2005 Annual Report.



Who Wins

While most of the Hoosier Lottery's revenue is paid out in prizes to our players, all Hoosiers are winners regardless of whether they play the Lottery or not. In Fiscal Year 2005, the Lottery returned \$189 million to the State of Indiana for important programs.

The Lottery transferred \$129 million to the **Build Indiana Fund** in Fiscal Year 2005. The majority of the Build Indiana Fund is dedicated to excise tax relief for automobile license plates. This helps all Hoosier **Taxpayers** win by saving some big time cash each time they renew plates. In fact, taxpayers have paid approximately 50% less for their license plates since the inception of the Lottery in 1989. The remaining portion of the Build Indiana Fund is dedicated to help pay for projects such as infrastructure improvements and community development in each of Indiana's 92 counties.

For Fiscal Year 2005, the Lottery transferred \$30 million to the **Teacher's Retirement Fund** and \$30 million to the **Pension Relief Fund** which is in turn distributed to local fire and police pensions.

Hoosier Lottery **Players** had their best year to date, winning a record \$455 million in prizes last year. That's over \$1.2 million per day and over \$50,000 per hour! It was a particularly great year for scratch-off players. Thanks to fun new scratch-off games like "Hold 'Em Poker[®]" and "\$100,000 Mustang Mania," players scratched their way to a record \$314 million in prizes.

Last year was also a great year for Lottery **Retailers**, who sold a record \$739 million in Lottery products. These retailers received a record \$51 million in sales commissions and bonuses. Retailers also benefit when customers frequent their stores to buy lottery tickets and in turn purchase other retail items.

Indiana non-profit organizations benefit from the Hoosier Lottery through grants by **Alliance With Indiana**, which was established through a partnership and contractual agreement with the Hoosier Lottery and its online vendor Scientific Games. Alliance With Indiana receives \$175,000 annually from Scientific Games to support non-profit organizations that are making a difference in communities throughout the state.

In Fiscal Year 2005, seventy-eight Indiana non-profit organizations received grants ranging from \$500 to \$5,000. Alliance With Indiana grants are awarded quarterly in February, May, August and November to qualifying 501(c)(3) organizations.

No matter how you piece it together, every Hoosier wins with the Hoosier Lottery. The Hoosier Lottery looks forward to carrying on its tradition of offering fun and exciting new games for our players, while generating significant revenue for Indiana.



STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2005 AND 2004

	2005	2004
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$57,834,783	\$58,893,255
Investments—current portion	9,668,378	11,913,680
Accounts receivable—net	30,337,865	26,191,944
Prepaid expenses	2,448,572	1,236,017
Accrued interest receivable	200,033	143,555
Ticket inventory	319,242	314,037
Total current assets	100,808,873	98,692,488
NONCURRENT ASSETS:		
Long-term investments, less current portion above	70,419,514	56,908,241
Restricted assets	9,224,755	9,740,494
Capital assets—net	2,994,302	3,962,452
Total noncurrent assets	82,638,571	70,611,187
TOTAL	<u>\$183,447,444</u>	<u>\$169,303,675</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable:		
State	\$45,049,125	\$45,859,218
Trade	7,287,869	4,739,560
Current portion of prize liability	55,459,250	54,752,082
Deferred revenue	647,046	319,588
Other accrued expenses	1,773,335	2,207,654
Total current liabilities	110,216,625	107,878,102
LONG-TERM LIABILITIES—Long-term portion of prize liability—less current portion	<u>68,230,819</u>	<u>56,537,241</u>
Total liabilities	178,447,444	164,415,343
NET ASSETS:		
Unrestricted	2,005,698	925,880
Invested in capital assets	2,994,302	3,962,452
Total net assets	5,000,000	4,888,332
TOTAL	<u>\$183,447,444</u>	<u>\$169,303,675</u>

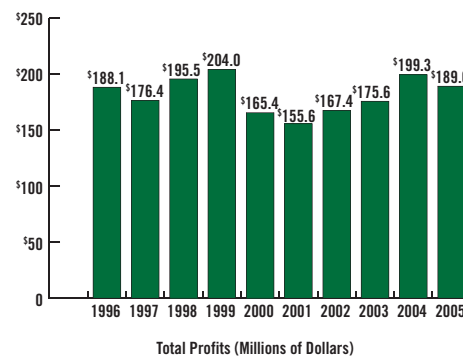
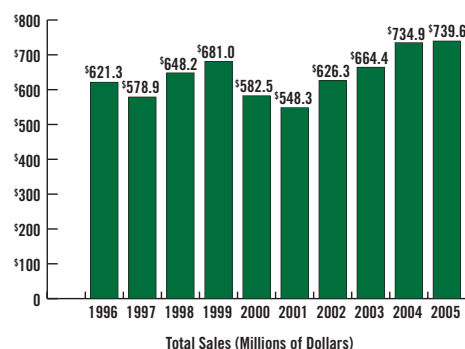
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

	2005	2004
OPERATING REVENUES:		
Instant ticket sales—net	\$489,736,650	\$441,068,792
On-line ticket sales	249,896,405	293,803,444
Total operating revenues	739,633,055	734,872,236
OPERATING EXPENSES:		
Game expenses:		
Instant game prizes	327,176,941	286,711,041
On-line game prizes	121,056,817	142,892,049
Television game show prizes	7,098,408	6,928,151
Retailer commissions	51,401,509	50,326,569
Ticket printing costs	7,851,976	6,942,544
Advertising and promotion	10,060,953	9,452,347
On-line professional services	8,461,606	12,485,861
ITVM lease and courier services	3,346,522	3,140,569
Total game expenses	536,454,732	518,879,131
Other operating expenses:		
Salaries, wages, and benefits	13,002,805	13,244,847
General and administrative	4,419,623	4,459,719
Total other operating expenses	17,422,428	17,704,566
Total operating expenses	553,877,160	536,583,697
Operating income	185,755,895	198,288,539
NONOPERATING REVENUES (EXPENSES):		
Interest income	1,356,850	880,081
Net increase (decrease) in fair value of investments	2,552,513	(1,309,149)
Other income (expense)	(624,261)	1,465,158
Total nonoperating revenues (expenses)	3,285,102	1,036,090
NET INCOME PRIOR TO DISTRIBUTIONS	<u>189,040,997</u>	<u>199,324,629</u>
DISTRIBUTIONS:		
Distributions to the State	(143,880,204)	(149,904,705)
Distributions to be paid to the State	(45,049,125)	(45,859,218)
Total distributions	(188,929,329)	(195,763,923)
INCREASES IN NET ASSETS	111,668	3,560,706
NET ASSETS—Beginning of year	<u>4,888,332</u>	<u>1,327,626</u>
NET ASSETS—End of year	<u>\$5,000,000</u>	<u>\$4,888,332</u>

The Financial Statements are excerpts from the Hoosier Lottery's audited financial statements for the years ended June 30, 2005 and June 30, 2004. Complete financial statements are available upon request to Controller, Hoosier Lottery, P.O. Box 6124, Indianapolis, IN 46206.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

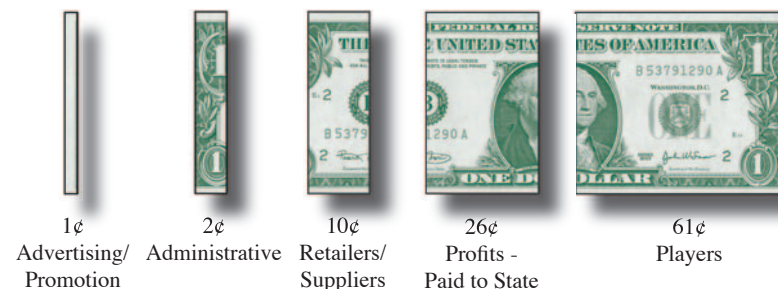
	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from ticket sales	\$735,735,612	\$738,937,625
Payments to ticket winners	(442,931,420)	(427,545,158)
Payments to employees	(13,437,124)	(12,635,138)
Payments to suppliers	(82,482,674)	(86,540,727)
Net cash provided by operating activities	196,884,394	212,216,602
CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES:		
Distributions to the State	(189,739,422)	(200,345,922)
Other (expense) income	(624,261)	2,690,397
Net decrease in restricted assets	515,739	1,053,009
Net cash used in noncapital and related financing activities	(189,847,944)	(196,602,516)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of fixed assets	(697,702)	(934,370)
Proceeds from the sale of fixed assets	15,866	47,884
Net cash used in capital and related financing activities	(681,836)	(886,486)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net (purchases) proceeds of investments	(8,713,458)	349,789
Interest income	1,300,372	838,243
Net cash (used in) provided by investing activities	(7,413,086)	1,188,032
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(1,058,472)	15,915,632
CASH AND CASH EQUIVALENTS—Beginning of year	58,893,255	42,977,623
CASH AND CASH EQUIVALENTS—End of year	\$57,834,783	\$58,893,255



	2005	2004
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$185,755,895	\$198,288,539
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,604,739	1,661,000
Change in provision for doubtful accounts	3,630	19,256
Change in provision for ticket returns	(67,156)	382,916
Gain on sale of fixed assets	45,247	(41,141)
Changes in assets and liabilities:		
Accounts receivable	(4,082,395)	4,579,003
Instant ticket inventory	(5,205)	327,456
Prepaid expenses and other assets	(1,212,555)	(359,508)
Accounts payable—trade	2,548,309	(1,362,066)
Deferred revenue	327,458	(855,389)
Other accrued expenses	(434,319)	609,709
Prize liability	12,400,746	8,966,827
Net cash provided by operating activities	\$196,884,394	\$212,216,602

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FISCAL YEAR 2005 DOLLAR BREAKDOWN: WHERE DOES THE MONEY GO?



NET SALES BY GAME

Scratch-off	\$470.4 million	Lucky 5	\$8.0 million
Pull Tab	\$19.3 million	Raffle	\$0.7 million
Powerball	\$120.3 million	TV Bingo	\$0.5 million
Hoosier Lotto	\$60.9 million		
Daily 3/4	\$59.5 million		
		Grand total	\$739.6 million

Hoosier Lottery Executive Staff

Esther Q. Schneider

Executive Director

Provides direction for overall Lottery operations.

Edward Benton

Chief Financial Officer

Responsible for all financial operations of the Lottery.

Michael Bare

Director of Security

Implements policies and procedures to safeguard the integrity of the Lottery.

Andy Hendricks

Director of Sales

Oversees all brand and product management and field sales activities.

Gregg Henry

Director of Information Services

Directs Lottery information systems, programming and technical support.

Tim Kuehr

Controller

Directs all accounting operations and manages the prize payment group.

Andrew Reed

Director of Public Relations

Responsible for public relations including customer service and community affairs.

Brian Slavens

Internal Auditor

Reviews and evaluates internal controls and performs internal audits.

Susan Thompson

Marketing Manager

Develops the marketing process and advertising for Lottery products.

Regional Offices

Headquarters

Pan Am Plaza, Suite 1100
201 S. Capitol Ave.
Indianapolis, IN 46225

East Central Region

(Not a claims paying location)
5252 Decatur Blvd.
Indianapolis, IN 46241

Northwestern Region

1501 Martin Luther King Blvd.
Gary, IN 46407

1539 N. Ironwood Dr.

South Bend, IN 46635

Northeastern Region

3711 Vanguard Dr., Suite I
Fort Wayne, IN 46809

Southern Region

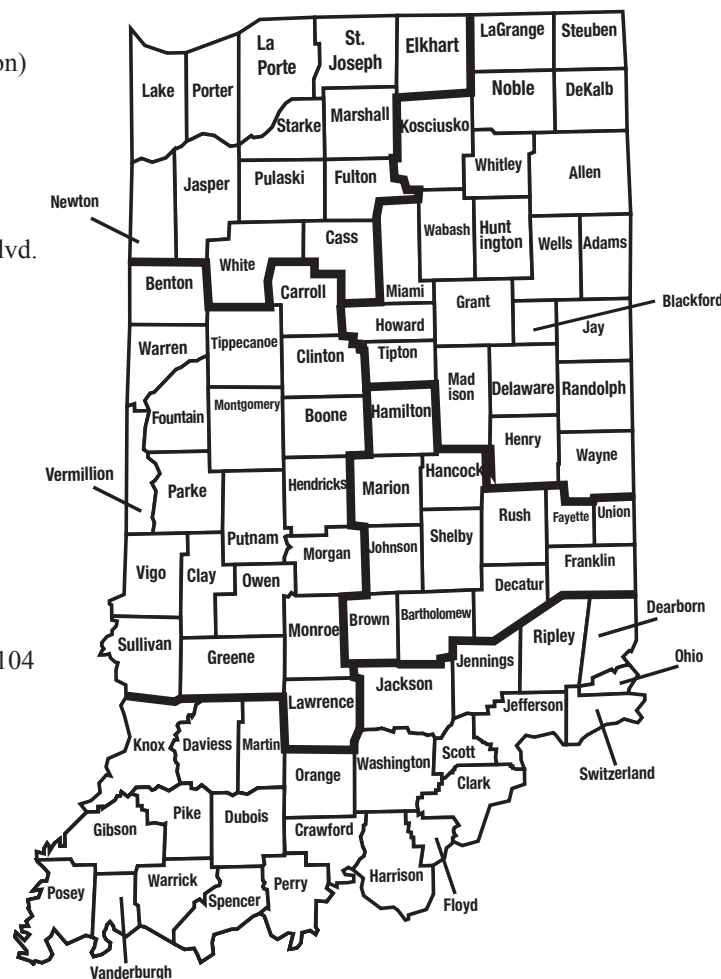
Water Tower Square, Suite 104
590 Missouri Ave.
Jeffersonville, IN 47130

5625 E. Virginia St.

Evansville, IN 47715

Western Region

680 E. Springhill Dr.
Terre Haute, IN 47802





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